

Message Text

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ACTION EB-08

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 9010

INFO AMEMBASSY BUCHAREST

AMEMBASSY TOKYO

AMEMBASSY WARSAW

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E.O. 11652: N/A

TAGS: ENRG, ETRD, NI, US, RO, PL, JA

SUBJECT: COMMENTS ON ANNOUNCEMENT OF OIL BARTER AGREEMENTS
BETWEEN NIGERIA, POLAND AND RUMANIA AND NIGERIAN ATTITUDE
TOWARD OTHER BARTER PROPOSALS

REF: BUCHAREST 3979

1. FMG HAS NOT UP TILL NOW FAVORED OIL BARTER DEALS.
VARIOUS BARTER PROPOSALS, AMONG THEM SEVERAL FROM U.S.
FIRMS COVERING PORT CONSTRUCTION AND TELECOMMUNICA-
TIONS EQUIPMENT, ARE BEING DEBATED WITHIN THE FMG;
HOWEVER, ALTHOUGH WE HEAR THE CONCEPT OF BARTER HAS
BEEN APPROVED IN PRINCIPLE, NOTHING TANGIBLE HAS
SO FAR BEEN CONCLUDED. NEVERTHELESS, THERE ARE SEVERAL
REASONS WHY NIGERIANS ON ONE HAND AND ROMANIANS AND
POLES ON THE OTHER MAY HAVE FOUND IDEA OF BARTER
BETWEEN THEM APPEALING.

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2. FIRST, FMG HAS ALWAYS BEEN SENSITIVE ABOUT
DISCOUNTING OF ITS OIL PRICES OUT OF CONCERN
THAT IT COULD START A DOWNWARD SPIRAL OF RECIPROCAL
PRICE CUTS AMONG OPEC MEMBERS. IT HAS THUS BEEN
OPPOSED TO BARTER AS A MEANS OF DISGUIISING PRICE
CUTTING. YET EITHER PRICE DISCOUNTS OR MUTUALLY
ACCEPTED OVER-INVOICING BY SUPPLIERS WOULD BE NECES-

SARY TO MAKE BARTER FEASIBLE WITH WESTERN CUSTOMERS. HOWEVER, THE STATE-RUN COMPANIES OF EAST EUROPEAN COUNTRIES LIKE POLAND AND ROMANIA, WITH THEIR NON-COMMERCIAL BOOKKEEPING, MAY WELL BE WILLING TO TAKE NIGERIAN CRUDE AT FULL OFFICIAL SALES PRICES AND ABSORB NOMINAL LOSSES IN EXCHANGING IT WITH WESTERN OIL TRADING COMPANIES IN ORDER TO OBTAIN THE HARD CURRENCIES THEY NEED, ESPECIALLY SINCE THEY WILL BE EXCHANGING GOODS AND SERVICES WHICH WOULD FIND NO TAKERS IN HARD CURRENCY MARKETS.

3. SECOND, THE FMG MAY AT PRESENT HAVE PSYCHOLOGICAL MOTIVATIONS FOR SEEKING TO DIVERSIFY ITS OIL MARKETS SUFFICIENTLY STRONG TO OVERCOME ITS MISGIVINGS ABOUT THE QUALITY OF ROMANIAN AND POLISH GOODS AND SERVICES. THROUGHOUT 1976 AND EARLY 1977, THE NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC) DEVELOPED AND IMAGE OF ITSELF AS THE PRICE SETTER FOR THE LIGHT LOW-SULPHUR AFRICAN CRUDE MARKET, ABLE TO DICTATE TO CUSTOMERS PRETTY MUCH AS IT PLEASED. IT TOOK A FALL IN EXPORTS OF A MILLION BARRELS A DAY FOR NNPC OFFICIALS TO ADMIT THAT SOMETHING MIGHT HAVE BEEN WRONG WITH THEIR PRICE POLICIES AND THAT MOE WAS INVOLVED THAN JUST THE APPEARANCE ON THE MARKET OF NORTH SEA AND ALASKAN OIL. THE MANAGING DIRECTOR OF THE NNPC HAS ADMITTED TO THE HEAD OF ONE U.S. OIL COMPANY HERE THAT THE LIMITED OFFICIAL USE

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CONFIDENTIAL FORECASTS OF A COMING OIL GLUT WHICH THAT COMPANY SUPPLIED TO ITS NIGERIAN PARTNER IN JUNE, 1977 WERE IGNORED, BUT THAT THINGS HAD CHANGED QUITE A BIT NOW. GIVEN THE NIGERIAN'S PRIDEFUL NATURE, THIS MUST HAVE BEEN HARD CROW TO SWALLOW. MOREOVER, THE COLLAPSE OF OIL EXPORTS IN FIRST QUARTER 1978 CONFRONTED THE FMG WITH THE PROSPECT OF A 25 PERCENT DROP IN GOVERNMENT REVENUES AND FORCED THE HEAD OF STATE TO ANNOUNCE A SERIES OF HIGHLY UNPOPULAR BELT-TIGHTENING MEASURES IN THE APRIL 1 BUDGET. THE RESULTING POLITICAL BACKLASH PRESENTED FMG LEADERS WITH AN UNWELCOME CRISIS THAT HAS DOUBTLESS LED TO SOME HARSH CRITICISM OF THE NNPC'S OIL EXPERTS WITHIN THE FEDERAL EXECUTIVE COUNCIL. WHILE CHAGRINED NNPC OFFICIALS HAVE BEEN WILLING TO CUT PRICES SEVERAL TIMES THIS YEAR TO RESTORE THE COMPETITIVENESS OF THEIR OIL, AND WHILE THEY ARE WELL AWARE THAT THEY CANNOT ESCAPE THEIR DEPENDENCE ON THE U.S. AND EUROPEAN MARKETS, IT WOULD BE NO SURPRISE IF THEY WERE ANXIOUS TO DIVERSIFY, OR TO APPEAR TO BE DIVERSIFYING, OIL CUSTOMERS AND TO CONCLUDE GOVERNMENT-TO-GOVERNMENT SALES AGREEMENTS THAT WOULD INSULATE THEM IN THE FUTURE FROM THE HARSH REALITIES

OF THE COMMERCIAL MARKET PLACE.

4. FEDERAL COMMISSIONER FOR INFORMATION WAS REPORTED IN "DAILY TIMES" AS TELLING NIGERIAN JOURNALIST THAT THREE NIGERIAN AND ROMANIAN EXPERTS WOULD WORK OUT FINANCIAL ARRANGEMENTS, QUANTITIES AND VALUES SOON AND HAVE DRAFT AGREEMENT FOR EXCHANGE OF GOODS READY BY SEPTEMBER. SHOULD AGREEMENTS IN PRINCIPLE WITH ROMANIA AND POLAND ACTUALLY LEAD TO ANYTHING, THE VOLUMES INVOLVED ARE NOT LIKELY TO BE LARGE SINCE EVEN THE USUAL MINIMUM COMMERCIAL CONTRACT OF 20,000 BARRELS PER DAY IS EQUIVALENT TO OVER 100 MILLION

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DOLLARS PER YEAR. ROMANIA AND POLAND WOULD HAVE NO PROBLEM DISPOSING OF THEIR OIL, DEPENDING OF COURSE ON THE PRICE THEY WERE WILLING TO ACCEPT. FOR EXAMPLE, ONE U.S. BASED OIL TRADING FIRM WHICH HAS BEEN BUYING NIGERIAN OIL ALREADY BUYS OIL FROM ROMANIA, HUNGARY AND EAST GERMANY.

5. IN ADDITION TO POSSIBLE BARTER DEALS WITH ROMANIA AND POLAND, NNPC MAY CONCLUDE GOVERNMENT-TO-GOVERNMENT SALES AGREEMENT WITH SWEDEN. SWEDISH DELEGATIONS HAVE VISITED NIGERIA, AND NNPC OFFICIALS HAVE RECIPROCATED. WHILE SWEDEN SHOULD BE ABLE TO GET NORTH SEA OIL MORE CHEAPLY THAN NIGERIAN OIL, IT DESPERATELY WANTS

TO LAND CONTRACTS FOR BUILDING CRYOGENIC TANKERS FOR FUTURE NIGERIAN LNG PROJECT AND MAY WELL BE WILLING TO ACCEPT NIGERIAN OIL AT FULL PRICE IN RETURN. IF IT COULD, NNPC WOULD PROBABLY ALSO LIKE TO BARTER OIL TO JAPAN. ECONOMIC ADVISOR TO NNPC MANAGING DIRECTOR TOLD EMBASSY PETROLOFF NOT LONG AGO THAT HE WOULD LIMITED OFFICIAL USE

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OPPOSE BARTER DEALS WHICH WOULD DISPLACE NORMAL SALES IN TRADITIONAL MARKETS LIKE U.S. IF DISCOUNTING WAS NEEDED, HE WOULD RATHER OFFER IT TO THE NNPC'S OIL COMPANY PARTNERS AND LET THEM FEED THE ADDITIONAL VOLUMES THROUGH THEIR ESTABLISHED CHANNELS. ON THE OTHER HAND, HE SAID, HE WOULD APPROVE BARTER DEALS THAT WOULD ENABLE NIGERIA TO SELL INCREMENTAL VOLUMES OF OIL AT EXISTING OFFICIAL PRICES IN NON-TRADITIONAL MARKETS. IN PARTICULAR, HE HAD HIS EYE ON JAPAN, WHICH SELLS NIGERIA A GREAT DEAL BUT BUYS NONE OF ITS OIL. HE FELT THAT JAPAN SHOULD BE IMPOSED UPON TO TAKE NIGERIAN OIL IF IT WISHED TO CONTINUE EXPORTING TO NIGERIA AT PRESENT LEVELS. OTHER WISE, NIGERIA WOULD BE FORCED TO SELL INCREASING VOLUMES OF OIL IN THE PRESENTLY GLUTTED U.S. AND EUROPEAN MARKETS AT EVER DIMINISHING UNIT PRICES TO PAY FOR ITS IMPORTS FROM A JAPAN WHICH DID NOTHING IN RETURN.

6. UNFORUNATELY FOR THE NNPC, OIL HAS A WAY OF FINDING ITS OWN WAY TO TRADITIONAL MARKETS AND ANYTHING BARTERED TO ROMANIA OR POLAND, PERHAPS SWEDEN, AND CERTAINLY TO JAPAN, WOULD WIND UP BACK ON THE U.S. EAST AND GULF COASTS THROUGH VARIOUS SWAP ARRANGEMENTS, THUS DEPRESSING THAT MARKET FURTHER. OIL TRADING COMPANY SOURCE OBSERVED THAT IN HIS OPINION THE MOST REALISTIC AND INTERESTING BARTER PROSPECT OF ALL, CONSIDERING THE VOLUMES OF OIL AND DOLLAR VALUE OF TRADE INVOLVED, WOULD BE A THREE-CORNERED ARRANGEMENT BETWEEN NIGERIA, JAPAN AND THE U.S. INVOLVING THE JAPANESE SWAPPING NIGERIAN OIL TO U.S. EAST COAST REFINERS AND IN RETURN TAKING OFFSETTING VOLUMES OF SURPLUS ALASKAN CRUDE FROM THE WEST COAST. ALTHOUGH JAPAN, SOURCE SAID, IS UNDER PRESSURE TO LIMITED OFFICIAL USE

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TAKE MORE OIL FROM ITS TRADITIONAL SUPPLIERS LIKE INDONESIA, IT COULD BE PERSUADED FOR SEVERAL REASONS NOT ONLY TO SWAP NIGERIAN CRUDE FOR ALASKAN,

BUT MORE IMPORTANTLY TO DO SO ON TERMS WHICH WOULD
LEAVE THE U.S. HOLDING A NET ADVANTAGE. FIRST, JAPAN
WOULD OWE THE U.S. A FAVOR FOR GETTING THE NIGERIANS
OFF ITS BACK AND ENABLING IT TO PROTECT A VALUABLE
MARKET. SECOND, JAPAN COULD DO SOMETHING TO REDUCE
ITS CONTROVERSIAL TRADE SURPLUS WITH THE U.S. WITHOUT
THE NEED TO REDUCE ITS EXPORTS AND EMPLOYMENT.
FINALLY, ALL PARTIES WOULD BENEFIT FROM CHEAPER
TRANSPORT COSTS. SOURCE ALSO SPECULATED THAT BESIDES
BENEFITTING FROM CHEAPER OIL, U.S. COULD DISCREETLY
PRESSURE NIGERIANS TO BUY MORE FROM AMERICAN AS
OPPOSED TO EUROPEAN SUPPLIERS IN RETURN FOR U.S.
HELPING NIGERIA BALANCE ITS TRADE WITH JAPAN. UNLESS
THE THOUGHT OF EXPORTING SURPLUS ALASKAN OIL IS STILL
POLITICALLY UNACCEPTABLE, THIS WOULD BE AN INTERSTING
CONCEPT TO EXPLORE.
WYMAN

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